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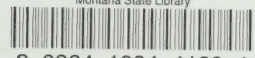
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THE INTERIM

OCTOBER 1995 HELENA, MONTANA VOL. X NO. 5

LEGISLATIVE AUDIT COMMITTEE

Committee to Meet in November...The Legislative Audit Committee is scheduled to meet November 17, 1995. The following reports are tentatively scheduled to be presented:

PERFORMANCE AUDITS:

- Department of Fish, Wildlife, and Parks: big game drawing system
- Department of State Lands: management of forested trust land, fire management program, and forestry equipment program followup
- Department of Public Health and Human Services: licensing of day-care centers
- Department of Transportation: relocating utilities on Montana's highway right-of-way

FINANCIAL-COMPLIANCE AUDITS:

- Guaranteed Student Loan Program, Commissioner of Higher Education
- Commissioner of Higher Education
- Department of Agriculture
- Department of Livestock
- Montana State Library Commission
- Montana Council on Vocational Education

- Montana Arts Council

EDP AUDIT REPORT:

- Information Processing Facility and Central Applications (Central Reviews)

CONTRACT AUDITS:

- Montana State Lottery: financial
- Montana State Lottery observations: report on Montana Cash Drawings

SUBCOMMITTEE ON FOREIGN INVESTMENT DEPOSITORY

Subcommittee Meets at Helena Bank...The second meeting of the Subcommittee on Foreign Investment Depository was held at Norwest Bank in Helena on September 7. Tom Ellis, President of Norwest Bank Helena, and other members of the bank staff provided the venue and hospitality for the Subcommittee's morning and afternoon sessions. Between these discussion periods, a luncheon was held at the Helena Branch of the Federal Reserve Bank of Minneapolis, hosted by John Cadby, Executive Director of the Montana Bankers Association. Branch President John Johnson and Vice President Sam Gane provided informational materials and a tour of the facility.

Subcommittee Looks at Regulation and Security...The dual focus of the September 7 meeting was on regulatory and security issues:

- Which federal and/or state agency would regulate a foreign investment depository?
- How would the entity be supervised or inspected and under what authority?
- How would the entity protect against internal and external security threats ranging from fraud and corruption to electronic hijacking and armed robbery?
- What screening devices and procedures could insulate a depository from money laundering and other criminal abuses?

These were some of the questions that the Subcommittee had for a succession of invited speakers, including Chris Olson, assistant administrator for the state Commerce Department's Banking and Financial Institutions Bureau; Wayne Capp, Montana Department of Justice; and Julie Kelly and Barb Alfson, security officers for Norwest Bank.

To help focus questions and responses, staff provided Subcommittee members and respondents with a draft description of a model depository (nicknamed "The Enterprise"). Among the main features of this hypothetical financial entity are that:

- it would be chartered under state law as an investment company (32-1-108, MCA);
- it would pay corporate taxes;
- it would offer safe deposit, currency conversion, and limited investment services;
- it could receive deposits via electronic transfer from an offshore location; and
- it would offer an unusually high (as yet undefined) degree of privacy to exclusively non-U.S. depositors.

Federal Reserve and IRS Reps Decline to Appear...Representatives from the Federal Reserve Bank of Minneapolis and the regional office of the Internal Revenue Service were expected to address the Subcommittee as well. The Federal Reserve plays key roles in the regulation of foreign banks in the U.S. and in interbank financial transfers. In accordance with federal laws, the IRS collects data on virtually every cash transaction of \$10,000 or more and hence effects strict limits on the anonymity offered to or sought by foreign as well as domestic depositors. Neither agency was represented at the meeting, however. The Subcommittee received a letter dated September 5 from a Senior Vice President in Minneapolis stating that any inquiries regarding the Federal Reserve's role in regulating a hypothetical enterprise must be put in writing and forwarded to his office for review by staff and by the Board of Governors. Subcommittee staff was also informed by Treasury Department lawyers in Washington, D.C., that local IRS officials would not be authorized to participate in discussions at this time. The Subcommittee was surprised and disappointed by these absences but has some assurances that both the Federal Reserve and the IRS will send representatives to a Subcommittee meeting in Billings in late January.

Subcommittee to Meet in Missoula...The third meeting of the Subcommittee is scheduled for 9 a.m. to 4 p.m. on October 27 in the Pope Room at the University of Montana Law School. The primary focus will be on privacy issues. To what extent does the right of privacy

clause in the Montana Constitution (Article II, section 10) allow for confidentiality in financial matters? What current or prospective statutory protections might be provided to foreign depositors? The Subcommittee hopes to learn from resident legal experts.

A secondary topic will be the demand for specialized financial services in the context of the Pacific Northwest Economic Region and its burgeoning trade and investment relations with a number of Asian Pacific nations that are experiencing or anticipating political instability.

The potential for a depository chartered, owned, or regulated by one or more Indian tribes in Montana will also be discussed at the October meeting. The Subcommittee is aware of a proposal made to a tribal government in South Dakota by an ostensibly official representative of a sovereign entity in the Middle East. While this venture has been abandoned, at least temporarily, the possibilities inherent in a tribal depository warrant some attention.

Anyone wishing further information, a copy of the study plan, or to be placed on the interested persons list may call Stephen Maly, Legislative Services Division, (406) 444-3064.

JUVENILE JUSTICE AND MENTAL HEALTH STUDY COMMISSION

Commission to Meet in Kalispell...The Juvenile Justice and Mental Health Study Commission will hold its next meeting on October 5 and 6 in Kalispell. The Commission will spend Thursday afternoon, October 5, at the Swan River Correctional Training Center.

Commission to Hold Public Hearing...The Commission will hold a PUBLIC HEARING in Kalispell on Thursday night from 7 to 9 p.m. in the basement of the Justice Center. The Commission encourages everyone interested in juvenile issues to attend the public hearing. The Commission is eager to hear from parents, teachers, the public, and anyone else interested in juvenile issues.

The Commission will tour the detention facility on Friday morning, followed by testimony of selected providers in juvenile justice and mental health. The Commission will close with a wrap-up meeting in the afternoon.

Anyone interested in further information may call Susan Fox, Legislative Services Division, (406) 444-3064.

THE BACK PAGE

As part of his presidential campaign and his administration's goals, President Clinton has pledged to "end welfare as we know it". That message was echoed in the Republican "Contract With America" and has been the focus of Congressional action to either cut the welfare budget or slow the growth in welfare expenditures, depending on the commentator. As the reform of "welfare" has begun to be fleshed out to include reforms in the Medicaid and Medicare programs, the debate is on and the reform, if it happens, is likely to have significant impacts for the states. This month's "The Back Page" article provides a glimpse of some of the issues of which Montanans should be aware.

COULD BLOCK GRANTS BE A BLOCKBUSTER?

by Dave Bohyer, Director
Office of Research and Policy Analysis

The headline in the August 24, 1995, Great Falls Tribune (p. 1B) stated, "State could lose \$1.7 billion in federal money". The article continued, citing analysis by the nonpartisan Maryland-based consulting firm, Fiscal Planning Services, Inc. (FPS), that Montana stood to lose some \$743 million in federal Medicaid funding alone through 2002. [NOTE: That's about \$80 million in FY 1996 and a rate of inflation of about 8.5% through 2002.] Although the FPS estimates are based on balancing the federal budget by 2002, which is separate from but related to the welfare reform debate, state Budget Director Dave Lewis said, "We're telling agencies that this is going to happen. The federal money's going to go away and we're not going to get it back from Montana taxpayers." (GF Tribune, 8/24/95, p. 2B.)

The issue of federal welfare reform was addressed in the nonpartisan newsletter, State Budget & Tax News. (9/1/95, pp. 1-2.) Quoting from the SB&TN article:

[The welfare reform package, including mandates, being negotiated] placates fast-growing states at the price of raising total projected federal cost. [To] gain votes from Republican conservatives, the mandates would deal with prohibiting assistance to unmarried teen mothers and eliminating grant increases when persons already on AFDC have children. To gain votes from Democrats and/or moderate Republicans, the mandates would involve state maintenance of effort requirements and requirements that child

care be made available to mothers of infants faced with work requirements....

To complete action on the federal budget, Congress must: (1) either (a) enact these and other controversial substantive measures including, perhaps, overriding Presidential vetoes or (b) incorporate them in omnibus budget legislation, (2) get appropriations bills through both Houses, in and out of conference committee, and adopted, (3) conform the appropriations bills to the previously passed reconciliation legislation, or decide to change the budget and deficit targets, and (4) get Presidential signatures or pass the appropriations measures over vetoes. Washington insiders agree that all this will not happen by the October 1 beginning of the federal fiscal year....

Implications for states: Most states are now about 20% into their FY 1996 budgets, which generally are based on no changes in federal policy. Every passing day: (1) increases the fiscal damage to states from federal cuts and policy changes affecting FY 1996 because states will have less remaining time to make adjustments and (2) decreases the probability of changes that would, from a state perspective, be retroactive....

In a contemporaneous article in the National Journal (9/19/95, p. 2116), "ARE THEY READY FOR THE REVOLUTION?", author Neal R. Pierce opines on federal welfare reform and the likely concerns of state governors and legislatures.

What happens if the mega-block-grant revolution actually comes off? What if Washington does block and dispatch all of welfare and medicaid--plus dozens of child care, job-training and related programs--to the states? How will we redesign and work the programs? What if the block grant funds from Congress fall short of our needs?

Pierce, along with Richard Nathan of the Rockefeller Institute of Government in Albany, New York, theorizes "that massive entitlement-type programs, on which tens of millions of Americans depend for basic welfare and medical services, would be thrown to the states--with strict caps on the amount of continued federal support". (GF Tribune, "Future worries older Montanans if Medicare is curtailed sharply", 9/5/95, p. 1B.) Montana alone has some 26,000 Medicare-eligible citizens, some 12,000 families receiving Aid to Families With Dependent Children, some 28,000 families receiving food stamps, and some 57,000 families receiving health care benefits through Medicaid. (Joe Elpel, Montana Department of Public Health and Human Services, internal agency report.)

Ohio's Governor, George Voinovich (R), is also quoted in the National Journal article: "I'm telling my fellow Republican governors, this is a big management problem. Watch out if we get what we asked for."

Roy Roemer, Colorado's Democrat Governor, made the observation that if Medicaid, which provides health care to the poor, became a block grant overnight, policy and financing both could become particularly divisive. Roemer is quoted in the National Journal article as stating, "We'd have the biggest provider fight you've ever seen." Regarding that observation, Pierce comments:

Indeed, one can imagine every group, from nursing homes to mental health agencies to doctors, instantly at one another's throats.

Yet the states would also have immense opportunities. Many federal programs, for example, are now administered by separate bureaucracies, or forbid the commingling of funds from different social programs. With the big block grants, says Gov. Jim Edgar, R-Ill., "we'd have much greater flexibility. We could streamline and reform our social agencies. We could save a small fortune on accounting alone."

As of September 19, the U.S. Senate and House had passed separate welfare reform measures that, as one article characterized them, strip "away much of the federal entitlement program in place for 60 years and transfers control over the safety net for poor families to the states". (GF Tribune, "Welfare bill shifts power to the states", 9/20/95, p. 2A.) A sidebar story on the same page states that the legislation would eliminate the guarantee of health coverage for low-income children, pregnant women, the disabled, and the elderly and would cut projected federal spending by \$182 billion over the next 7 years.

In returning to the article by Neal Pierce, he concludes with a fairly stern admonishment to states whose leaders are not actively discussing options for implementing imminently federal welfare reforms through reformed state programs. As he sees it,

[States will] have to tap the talent in their colleges and universities. They'll need broad-based task forces. They'll have to think of involving the news media, of encouraging civic journalism projects so that citizens see the range of block grant opportunities and speak up for priorities that they believe are critical.

The goal: to minimize dogfights over money, to give citizens a voice, to involve localities, to use block grants to truly improve government.

States that leave themselves in an unprepared, reactionary position will live to rue the day.

For its part, the 1995 Montana Legislature created the Health Care Advisory Council (HB 511, Ch. 378, L. 1995) and the Juvenile Justice and Juvenile Mental Health Study Commission (HB 240, Ch. 436, L. 1995) and made permanent the Joint Oversight Committee on Children and Families (HB 578, Ch. 414, L. 1995). For its part, the Administration has created the Montana Public Health Improvement Task Force and a variety of other task forces and working groups within the newly formed Department of Public Health and Human Services. Each of these groups is concerned with some of the issues that fall within the general subject of "welfare reform".

Will any or all of these groups rise to the challenge outlined by Neal Pierce and others? It will be difficult, especially given certain circumstances: the federal welfare reform debate is beginning to close; the end and beginning of the federal fiscal year are upon us; U.S. Senate leaders have all but promised revisiting the federal balanced budget amendment; and the "train wreck" widely anticipated by the beltway pundits appears more likely each day.

Montana's policymakers, from the Governor to legislators to County Commissioners and Montana's acutely interested parties, from senior citizens to single parents to child protection advocates to health care providers to educators to perhaps the citizenry at-large, should become more attuned to the challenges and the opportunities that may be left on the state's doorstep by actions occurring some 2,500 miles away. If policymakers, citizens, providers, and others are not at least minimally prepared, Montanans may indeed "live to rue the day".

Ed. Note: As this article was being compiled, Congress was embroiled in debate over welfare reform. By the time of publication, Congress may have reached a reform compromise and Congressional debate may be over--for now.



INTERIM CALENDAR

UNLESS OTHERWISE SPECIFIED,
ALL ROOM DESIGNATIONS ARE IN THE CAPITOL

OCTOBER

October 5 and 6, Juvenile Justice and Mental Health Study Commission, Kalispell

October 5, Public Hearing, Juvenile Justice and Mental Health Study Commission, Justice Center, Kalispell, 7 p.m.

October 9, Columbus Day, holiday

October 13, Legislative Finance Committee, Room 104

October 23, Joint Committee on Postsecondary Education Policy and Budget, Room 104

October 26 and 27, Joint Oversight Committee on Children and Families

October 27, Subcommittee on Foreign Investment Depository, University of Montana Law School, Missoula

NOVEMBER

November 10, Veterans' Day, holiday

November 17, Legislative Audit Committee

November 23, Thanksgiving, holiday

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